

**COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION**

In the Matter of:

AN ELECTRONIC EXAMINATION OF THE)	
APPLICATION OF THE FUEL ADJUSTMENT)	CASE NO.
CLAUSE OF EAST KENTUCKY POWER)	2022-00037
COOPERATIVE, INC FROM MAY 1, 2021)	
THROUGH OCTOBER 31, 2021)	

**RESPONSES TO COMMISSION STAFF'S INFORMATION REQUEST
TO EAST KENTUCKY POWER COOPERATIVE, INC.
DATED MAY 9, 2022**

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

AN ELECTRONIC EXAMINATION OF THE)	
APPLICATION OF THE FUEL ADJUSTMENT)	CASE NO.
CLAUSE OF EAST KENTUCKY POWER)	2022-00037
COOPERATIVE, INC FROM MAY 1, 2021)	
THROUGH OCTOBER 31, 2021)	

CERTIFICATE

STATE OF KENTUCKY)
)
COUNTY OF CLARK)

Julia J. Tucker, being duly sworn, states that she has supervised the preparation of the responses of East Kentucky Power Cooperative, Inc. to the Public Service Commission Staff Data Requests contained in the Appendix in the above-referenced case dated May 9, 2022, and that the matters and things set forth therein are true and accurate to the best of her knowledge, information and belief, formed after reasonable inquiry.



Subscribed and sworn before me on this 13th day of May 2022.



GWYN M. WILLOUGHBY
Notary Public
Commonwealth of Kentucky
Commission Number KYNP38003
My Commission Expires Nov 30, 2025

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC CASE NO. 2022-00037

FUEL ADJUSTMENT CLAUSE

RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S INFORMATION REQUEST DATED 05/09/2022

REQUEST 1

RESPONSIBLE PARTY: Mark Horn

Request 1. Refer to EKPC's response to Commission Staff's First Request for Information (Staff's First Request), Item 2. For the three contracts with Foresight Coal Sales (Foresight) over the May 2021 through October 2021 period, the required tonnage totaled 340,000 tons versus 204,539. Explain why, if known, Foresight appears to be having trouble honoring its contract commitments and what provisions, if any, EKPC has made for any potential shortfall.

Response 1. On August 21, 2021, Foresight provided EKPC notice of an event of force majeure at the Sugar Camp Energy Complex ("Sugar Camp"). All sections at Sugar Camp, including the M-Class and Viking longwall sections, ceased underground coal production in response to an order under Section 103(k) of the Mine Act issued by the Mine Safety and Health Administration ("MSHA"). Each month following, EKPC continued to receive a prorated allotment of Foresight's coal production from other coal mines that met contract coal quality specifications. The M-Class longwall section was isolated from the Viking longwall section with 120-psi seals and remains idled. Only the Viking longwall resumed operation in February 2022;

therefore, the force majeure event is ongoing. Nevertheless, with the Viking longwall section in operation and the preparation plant resuming the processing of raw coal from that side of the mining complex, Foresight is now meeting monthly delivery schedules, which consist of make-up tons from the five-month period when Sugar Camp was not producing coal. All tonnage deficiencies are projected to be made-up by Q1 2023. EKPC did procure short-term spot coal from three suppliers for Q1 2022 to mitigate any potential shortfall of Foresight tons.

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PSC CASE NO. 2022-00037

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REQUEST 2

RESPONSIBLE PARTY: Mark Horn

Request 2. Refer to EKPC's response to Staff's First Request, Item 4.

Request 2a. Explain how EKPC determines the differences between the delivery costs of coal versus the evaluated cost in the confidential bid sheets.

Response 2a. Delivery cost only measures the coal cost and transportation cost to get the coal from the acquisition point to the delivery point. Evaluated cost accounts for all quantifiable or measurable costs such as coal cost, transportation cost, heat content, sulfur content (scrubber cost and emissions cost), ash content (boiler maintenance cost, ash disposal cost), severance tax (if applicable), clean coal tax credit (if applicable), and weekly pay factor (if applicable). The bidder provides the information such as guaranteed coal quality and payment preference while EKPC uses proprietary maintenance costs, landfill costs, transportation cost, and scrubber costs within the Fuel Evaluation Model to rank the proposals. Procurement decisions are made on the lowest evaluated cost that meets EKPC's needs and requirements.

Request 2b. EKPC continues to do business with Foresight despite what appears to be trouble honoring its delivery commitments. If not answered above, explain what assurances EKPC has that Foresight is able to honor its delivery commitments.

Response 2b. With the exception of the force majeure event detailed in Response 1, Foresight has a history of proven performance with EKPC with coal deliveries that are on time and meet the required coal specifications. By definition, a force majeure event is not foreseeable or preventable. This event for Foresight is believed to be an isolated incidence. EKPC does perform physical and financial due diligence on all of its contract suppliers on an annual basis, at a minimum. With a coal market that is already shallow and continuing to constrict, EKPC works with all of its fuel suppliers, as much as reasonably possible, to ensure that EKPC's Owner-Members are receiving fuel and, ultimately, power at the least cost option. Though EKPC has not entered into any new business with Foresight during this force majeure event, Foresight is making-up tons, and all coal tonnage deficiencies are expected to be remedied by Q1 2023.

Request 2c. For the three-month spot purchase for the Spurlock units, explain why the spot purchase delivery cost for units 3 and 4 considers the impact of the \$2 per ton Kentucky clean coal tax credit and the spot purchase for units 1 and 2 does not. Include in the explanation how the tax credit works.

Response 2c. The spot purchases for Spurlock units 1 and 2 were not impacted by the Kentucky clean coal tax credit in the evaluation because they did not meet the requirements to receive the Kentucky clean coal tax credit. First, the coal procured for Spurlock units 1 and 2 did not come from Kentucky. Secondly, Spurlock units 1 and 2 are not designated as a certified Clean Coal Facility as defined by the Kentucky Energy and Environment Cabinet and, therefore, ineligible.

The Kentucky Energy and Environment Cabinet has designated Gilbert Unit No. 3 and Unit No. 4 at Spurlock each a Clean Coal Facility pursuant to KRS 141.428. Pursuant to KRS 141.428, the Kentucky Clean Coal Incentive Act authorizes an eligible entity to receive an allowable tax credit of two (\$2) per ton of eligible coal purchased that is used to generate electric power at a certified Clean Coal Facility. This tax credit serves as an incentive for EKPC to procure Kentucky coal. In this instance, the Kentucky clean coal tax credit had no measurable impact in the evaluation because no proposals for the three-month spot purchase for the Spurlock units came from Kentucky suppliers.

Request 2d. Explain how the severance tax amounts listed on the bid sheets were calculated.

Response 2d. The severance tax amounts are not calculated by EKPC; they are provided by the seller on the written coal sales proposal on a dollars-per-ton basis. EKPC requires suppliers to validate the severance tax cost provided on proposals “recommended” for supply agreements

that will be executed. All measurable costs are converted to \$/MMBtu and added together to determine an evaluated delivered cost. Any severance tax imposed by any jurisdiction is subtracted from the evaluated delivered cost for the purpose of evaluating proposals and ranking the coal proposals from lowest to highest. This is a mathematical exercise only as the severance tax is ultimately recovered by the seller through the price of the coal to the buyer.

EAST KENTUCKY POWER COOPERATIVE, INC.

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FUEL ADJUSTMENT CLAUSE
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COMMISSION STAFF'S INFORMATION REQUEST DATED 05/09/2022

REQUEST 3

RESPONSIBLE PARTY: Mark Horn

Request 3. Refer to EKPC's response to Staff's First Request, Item 5.

Request 3a. It is not clear as to whether all the bid sheets for the Cooper station have been provided. There is one bid sheet filed confidentially: 1st QTR 2021 Verbal. Provide the required sheets or point to which bid sheets are referenced on page 2 of 4 in the response.

Response 3a. The bid sheet labeled 1st QTR 2021 Verbal in the response to Staff's First Request, Item 5, was from a prior period of review and provided in error. Please see pages 5 through 9 of this response for the solicitation list and required sheets.

Confidential protection of the bid tabulation sheets or corresponding documents that ranked the proposals has been requested in the form of a motion for confidential treatment.

Request 3b. For the confidential 1st QTR 2021 Verbal bid sheet for the Cooper station, explain why there is no amount listed in the Severance Tax column.

Response 3b. As stated in Response 3a above, this bid sheet was included in error. The correct sheets on pages 7 through 9 do have the amount listed in the Severance Tax column.

Request 3c. During the period from September 16, 2021, through October 19, 2021, 70,500 tons were purchased verbally for Cooper station and most of that on an emergency basis. Explain why emergency purchases were required for the Cooper station.

Response 3c. EKPC defines an Emergency Spot Purchase as a spot purchase made when there is an immediate need for coal. Verbal or oral coal supply solicitations typically yield a much quicker response from the market than a written coal supply solicitation. Because of the nature of Cooper's dispatch, there are no long-term coal supply contracts in place, meaning that all the coal currently procured for Cooper comes from the spot market as detailed in the Response to Staff's First Request, Item 1. Weather conditions, transmission constraints, and natural gas price volatility have increased the projected coal burn at Cooper both in magnitude and velocity. Cooper's actual coal burn consistently outpaced the projected coal burn throughout 2021. The coal market for Cooper is shallow, and the demand for coal has increased domestically and internationally as physical inventories have decreased, leading to a very competitive market. Cooper ended the month of September 2021 below its target coal inventory level. In an effort to maintain the coal inventory level as set in Board Policy and ultimately to bolster reliability in preparation for the 2021/2022 winter, EKPC purchased coal using verbal solicitations on an emergency basis as a means of acting with the proper sense of urgency.

Request 3d. Explain why several of the coal contracts for the Cooper station appear to be verbal.

Response 3d. The coal contracts signed for Cooper station through verbal coal supply solicitations during the period under review either were due to the immediate need for coal as detailed in Response 3c, or because EKPC had an opportunity to amend the quantity or term of an existing coal supply agreement to better meet the needs of Cooper.

Request 3e. On page 2 of 4 in the response, explain how the contract entered into on September 29, 2021, could cover the period from July 1, 2021, through December 31, 2021.

Responses 3e. The September coal supply agreement referenced in Request 3e was not a new contract. This transaction was for an emergency quantity increase of 20,000 additional tons from the verbal solicitations listed on page 5 of 9 dated 06/09/21 for the time period of 06/13/21 – 12/31/21 (tabulation sheet on page 7 of 9) and 3,000 additional tons from the verbal solicitation listed on the same page dated 08/19/21 for the time period of 08/23/21 – 10/31/21 (tabulation sheet on page 9 of 9). The quantity increases took place on October 5, 2021, for each of these purchases.

Request 3f. Explain whether the impact of the \$2 per ton Kentucky clean coal tax credit was considered.

Response 3f. The \$2 per ton Kentucky clean coal tax credit is not considered on coal procurement bid tabulations/fuel evaluations for any other units in EKPC's generating fleet other than Gilbert Unit No. 3 and Unit No. 4 at Spurlock Power Station. Refer to Response 2c, above.

Request 3g. Explain whether EKPC paid the delivery price or the evaluated price for the actual coal delivery. Include in the response whether the explanation holds true for the prices listed in the bid evaluation sheets included in both Items 4 and 5.

Response 3g. EKPC pays the "delivery" price for actual coal delivery. This holds true in all coal procurement cases. In the case of Cooper, the seller's coal price includes the cost of truck transportation to get the coal from the acquisition point to the delivery point at Cooper; in the case of Spurlock, the seller's coal price is Free of Board ("FOB") barge or rail car (acquisition point). EKPC is directly responsible for the barge or rail transportation cost associated with getting the coal to the delivery point at Spurlock. In a non-coal example, one does not pay a vehicle dealership the cost of insurance, property tax, or maintenance over the life of the vehicle even though they are measured and evaluated when determining the affordability of the purchase being considered.

EAST KENTUCKY POWER COOPERATIVE, INC.

PSC FUEL ADJUSTMENT CLAUSE CASE NO. 2022-00037

RESPONSE TO PSC ORDER DATED 05/09/2022

Unit	Date	Reason	Quantity (Tons)	Quality	Time Period	Number of Vendors Contacted	Tabulation Sheet
Cooper	06/09/21	Immediate Response Required	58,000	3.3# SO ₂ /MMBtu <30% Ash >9,000 Btu	06/13/21—12/31/21	3	Page 6
Cooper	06/24/21	Immediate Response Required	10,000	3.3# SO ₂ /MMBtu <30% Ash >9,000 Btu	07/01/21—07/31/21	1	Page 7
Spurlock 1&2	08/18/21	Immediate Response Required	15,000	7.2# SO ₂ /MMBtu <16% Ash >11,000 Btu	08/19/21—10/31/21		Test Purchase No Tabulation
Cooper	08/19/21	Immediate Response Required	9,000	3.3# SO ₂ /MMBtu <30% Ash >9,000 Btu	08/23/21—10/31/21	2	Page 8
Cooper	09/16/21	Immediate Response Required	5,000	3.3# SO ₂ /MMBtu <30% Ash >9,000 Btu	09/17/21—12/31/21	1	Test Purchase No Tabulation
Cooper	09/29/21	Immediate Response Required	23,000	3.3# SO ₂ /MMBtu <30% Ash >9,000 Btu	07/01/21—12/31/21	1	Emergency Purchase No Tabulation
Cooper	10/05/21	Immediate Response Required	5,000	3.3# SO ₂ /MMBtu <30% Ash >9,000 Btu	11/01/21—12/31/21	1	Emergency Purchase No Tabulation

AST KENTUCKY POWER COOPERATIVE, INC.

PSC FUEL ADJUSTMENT CLAUSE CASE NO. 2022-00037

RESPONSE TO PSC ORDER DATED 03/31/2022

Unit	Date	Reason	Quantity (Tons)	Quality	Time Period	Number of Vendors Contacted	Tabulation Sheet
Cooper	10/12/21	Immediate Response Required	16,000	3.3# SO ₂ /MMBtu <30% Ash >9,000 Btu	10/13/21—12/31/21	2	Emergency Purchase No Tabulation
Cooper	10/19/21	Immediate Response Required	21,500	3.3# SO ₂ /MMBtu <30% Ash >9,000 Btu	10/13/21—12/31/21	1	Emergency Purchase No Tabulation

Date: 6/9/2021
Event Nbr: 303
Bid End Date: 06/08/2021

FUEL EVALUATION FOR COOPER POWER STATION

SPOT PURCHASES

Coal Supplier	Number	Quality Btu	% Sulfur	% Ash	Tons	Term	Delivery Cost		Severance Tax	Evaluated Cost		Reason for Recommendation
							\$	MMBtu		\$	MMBtu	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

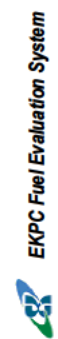


Date: 6/24/2021
Event Nbr: 304
Bid End Date: 06/15/2021

FUEL EVALUATION FOR COOPER POWER STATION

SPOT PURCHASE

Coal Supplier	Number	Quality Btu		Delivery Cost		Severance Tax	Evaluated Cost		Reason for Recommendation
		% Sulfur	% Ash	Tons	Term		\$ Ton	\$ MMBtu	
Perry County Coal Perry Monthly / Non-Union / Producer	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]



Date: 8/19/2021
Event Nbr: 308
Bid End Date: 08/16/2021

FUEL EVALUATION FOR COOPER POWER STATION

SPOT COAL

Coal Supplier	Quality Btu		Severance Tax		Delivery Cost		Evaluated Cost		Reason for Recommendation
	Number	% Sulfur	Tons	Term	\$ Ton	\$ MMBtu	\$ Ton	\$ MMBtu	
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]

EAST KENTUCKY POWER COOPERATIVE, INC.

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FUEL ADJUSTMENT CLAUSE

RESPONSE TO INFORMATION REQUEST

COMMISSION STAFF'S INFORMATION REQUEST DATED 05/09/2022

REQUEST 4

RESPONSIBLE PARTY: Julie Tucker

Request 4. Refer to EKPC's response to Staff's First Request, Item 12. Explain in detail the nature and terms of the two separate 75 MW energy purchases.

Responses 4. The EKPC coal fired generation fleet provides an energy price hedge for much of the EKPC load, meaning it provides energy at a known price. During October 2021, EKPC was performing required maintenance on multiple coal fired generating units. Fall delivery periods can introduce volatility into the PJM market because many generation assets take maintenance outages and as the transition from summer to winter occurs, unexpected hot or cold weather can drive prices up in the market. EKPC had adequate resources to serve all of its load, but the price of energy from the gas units is not fixed. The purchases were made to secure the price that would be paid for the energy and avoid market price volatility on that amount of energy.

EKPC utilizes purchases from others at times to hedge its energy costs. PJM will supply the energy to the EKPC load, so there is no concern about the availability of generation for supply. However,

the price for purchasing the energy from the PJM market will not be known for certain until after the energy delivery has occurred and the market is fully settled. During the Fall 2021 time period, natural gas prices became volatile and drove price volatility into the PJM market. EKPC chose to purchase a firm energy product to ensure a known price for a portion of the energy it needed.

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REQUEST 5

RESPONSIBLE PARTY: Craig Johnson

Request 5. Refer to EKPC's response to Staff's First Request, Item 15.

Request 5a. Explain the difference between a "Scheduled" and a "Forced" Outage.

Responses 5a. EKPC, being a member of PJM, follows their guidelines for scheduling planned and maintenance outages and the definitions of what is considered a Planned Outage, Maintenance Outage and Unplanned Maintenance Outage ("Forced"). An Unplanned Maintenance Outage ("Forced") is an outage that does not meet the PJM guidelines for a Planned or Maintenance Outage. Attached for your reference is the PJM Manual 10: Pre-Scheduling Operations, Rev 40, which documents the PJM guidelines pertaining to generation outages. These fall into three main categories; Planned, Maintenance and Unplanned (Forced). The following sections from the manual provide a general description of each of the three categories of outages: 2.2 Planned Outages, 2.3 Maintenance Outages, and 2.4 Unplanned (Forced) Outages.

Request 5b. Explain in detail how far in advance EKPC plans its “Scheduled” Outages before taking the units offline.

Response 5b. Planned Outages are scheduled, in some cases, years in advance but no later than thirty days prior to the operating day in which the outage is to begin. EKPC planned its Fall 2021 generation outages two to three years in advance, which is the typical scheduling window for EKPC Planned Outages. Maintenance Outages are scheduled using PJMs guidelines and PJM strongly encourages Maintenance Outage requests be scheduled at least three days in advance.